SG Weekly (29 July 2021 - 4 August 2021)

Market Moves

The Singapore banks cheered the market with 1H results that beat expectations and resume dividend payout to FY19's levels. More significantly, they turned in loans growth of between 3% to 7%. DBS raised full-year loan growth guidance to high single digit, and expect fee income growth at mid-teens. Loan loss provisions fell substantially across the board. Asset quality improved in Singapore and Greater China, while those in Malaysia, Thailand and Indonesia remained weak.

The restructuring theme continues with Keppel offer to acquire SPH for S$3.3bn, in cash and units of SPH REIT and KREIT. Each SPH share will exchange for S$0.668 cash, 0.596 KREIT units and 0.782 SPH REIT units. The deal was priced at near book of ~S$2.09 per SPH share, after the demerger of the media business. The distribution of the REIT units will reduce Keppel's stake to 20% in each of them, thus also avoiding a chain offer for SPH REIT (in which SPH has a 67% stake currently) and consolidation of debt of SPH REIT. SPH share will trade in line with the prices of KREIT and SPH REIT. And prices of KREIT and SPH REIT are weaker due to the potentially larger float.

ESR Cayman Ltd announced a US$5.2bn acquisition of ARA Group. The deal will propel ESR to be the largest real estate and real assets manager in Asia Pacific with AUM of US$129bn, and the third largest asset manager globally. ARA

Analysts' Notes

GKE Corporation: Revenue and profit were 1.9%/2.7% below our estimates, with lower-than-expected revenue due to reduction in sales from aviation sector customers, and higher-than-expected ECL allowance posted. Revenue saw a 10.9% increase yoy from S$107.3m to S$119.0 million in FY21 ended 31 May. The Group also booked one-off S$2.5m gain on disposal of subsidiaries. Overall FY21 PATMI surged by 2.5x from S$4.7m to S$11.5m. Catalysts to upside include: 1) RMC plants in China doubled in production capacity from 0.8 million m3 before FY21 to 1.6 million m3; and 2) High warehouse utilization rates are expected to remain in FY22 as a significant portion are for medical supplies, with which demand would likely not waver in the short-term. We maintain BUY, with a target price of S$0.171. (Link) *(Lim Li Jun Tracy)*

Samudera Shipping Line: SSL recorded a revenue of US$209.1m in 1HFY21, a 19.6% increase from US$174.8m in 1HFY20, with container shipping segment being key revenue driver. This was largely due to the higher freight rates charged for container shipping. SSL saw an 8.1% rise in container volume handled to 715,000 TEUs (1HFY20: 662,000 TEUs). The Group also booked one-off US$1.5m from the sale of ageing container boxes. Overall 1HFY21 PATMI surged by 5.1x yoy from US$7.2m to US$36.7m. Net cash rose to US$80.9m (30 Jun 21) with sale of a number of vessels and the increased profitability in 1HFY21. SSL currently has some pricing

ARA US Hospitality Trust and Suntec REIT listed in Singapore and Fortune REIT, Prosperity REIT and Hui Xian REIT listed in HK. ESR Cayman also has a 13% stake in Singapore-listed AIMS APAC REIT. This is somewhat similar to Capitaland's restructuring plan, which upon completion, will result in the listing of CLI, an investment management company that holds stakes in 6 listed REITs and 20 private real estate funds.

Yangzijiang secured a further US$1.08bn contracts to build 10 containerships and 2 tankers. YTD orders secured totalled US$6.67bn. Orderbook of US$8.74bn for 170 vessels is a new record for the shipyard. Some of the tailwinds are regulations requiring ships to run on cleaner fuel, shipowners seeking bigger vessels to lower unit operating costs, and higher freight rates. On the other hand, credit risks have risen for Yangzijiang's lending business with the recent regulatory clampdown on property loans and restrictions on sectors including internet, gaming, food delivery and online lending. This is also a risk for other China companies listed here.

include port congestions, and the impact of high freight rates on charter-in costs when existing contracts are due. (Link) *(Lim Li Jun Tracy)*

Macro Views

SG PMI continued to edge higher to 51.0 in July (Jun: 50.8), the highest since Dec 2018, pointing to strong manufacturing outlook into 3Q. This contrasts with the contraction seen in the region – Malaysia (40.1), Indonesia (40.1), Thailand (48.7) and decline in Philippines (50.4) and S Korea (53). Japan (53) and Taiwan (59.7) recovered after the dip in June, signalling stronger electronics demand.

Malaysia faces a double whammy of COVID infections and political instability, which affected manufacturing output even for essential items such as gloves. The supply of raw materials for building materials to Singapore have also been hit.

Company News

Yinda Infocomm Limited (BBG: YINDA) had entered a non-binding MOU with Tri-Ventures, the equity arm of Vision Group, to jointly develop products, pursue clients and cross-sell each other's expertise and technologies. TriVentures specialises in blockchain technology that can be integrated with Yinda's identity management technological solutions to create more customer use cases for the market. The partnership is likely to develop new revenue streams from a wider customer market spectrum including the blockchain industry. Yinda had reported a S$6.8 million revenue for FY21, including 2 months of revenue contribution from newly acquired subsidiary InterBIO, which made up 15% of total revenue. Net loss was also offset by a S$0.5

month ago, the lowest level since April 2020, as demand contracted partly due to high product prices. Higher raw material costs in recent months dragged margins and profit growth down. Policymakers have stepped up efforts to curb material prices, but pressures are still continuing.

US factory orders rose 1.5% MoM in June, higher than the +1.0% expected, after a 2.3% increase in May. Business spending on equipment stood firm, with strength in manufacturing even as some demand shifted to services. Orders increased 18.4% on a yoy basis. Gains in factory orders were largely in machinery, computers and electronic products, and electrical equipment, appliances and components. US IHS Markit PMI for July stood at 59.9. This suggests that even though growth was slower, supply chain bottlenecks may be seeing some signs of easing.

VCPlus Limited (BBG: ACHR) had entered into a 2-year collaboration with Chartwell Compliance, a fintech compliance advisory firm to provide fintech licensing and compliance consultancy services to businesses in North America and Asia. Chartwell specialises in areas like payments, cryptocurrencies, currency exchanges, lending and gaming. This collaboration will also allow both companies to rely on each other's expertise and extensive network to provide advice to their clients who are interested in expanding into US and Asia respectively.

Addvalue Technologies Ltd (BBG: ADDV) had secured an order for the supply of Inter-Satellite Data Relay System (IDRS) terminal to a new customer. In total, Addvalue has 6 IDRS customers and an outstanding orderbook of more than US$3.2 million for its IDRS terminal sales, excluding recurring airtime and related services. The orders will be substantially fulfilled by 31 March 2022. Since the successful commissioned of 5 IDRS terminals in space in early 2021, Addvalue has been generating recurring airtime revenue. With more IDRS terminals being commercialised in coming months, recurring airtime revenue is thus expected to grow correspondingly.